



Developing the local competence of expatriate managers for emerging markets: A knowledge-based approach

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ABSTRACT

This paper proposes a theoretical framework for developing expatriate managers' local competence in emerging markets from a knowledge-based perspective. We argue that local knowledge in emerging markets differs significantly from corporate knowledge transferred to those markets, and that its very nature determines its critical importance to expatriate managers' business performance. We explore the processes and mechanisms through which local knowledge can be acquired and integrated into expatriate managers' knowledge base supporting local talent development and their effective strategic decision-making. We suggest that conventional local competence development strategies may not be effective methods for developing global managers for emerging markets.

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1. Introduction

The growing influx of foreign investment in emerging markets, such as China, India, and countries in Eastern Europe, drives an increasing demand for global managers with the specific capabilities required to manage in these culturally, economically and institutionally distant markets (Collings, Scullion, & Morley, 2007; Harvey, Speier, & Novicevic, 1999). Despite the growing debate around issues of expatriate failure and performance (Björkman & Xiucheng, 2002; Briscoe & Schuler, 2004; Dowling & Welch, 2004), the utility of expatriate managers in emerging markets is inevitable because of the strategic roles these managers play and the severe shortage of talent within these economies, particularly shortages of qualified local senior executives (Lenartowicz & Johnson, 2007). According to recent surveys by the New York-based Association of Executive Search Consultants (AESC) of hiring activities in key emerging markets, about 12 percent of senior executives of multinational companies (MNCs) operating in those markets cannot be replaced by host country nationals (Bindra, 2008). Yet by attempting to fill these positions in the emerging markets, MNCs face particularly acute challenges associated with the recruitment and retention of expatriates as well as local talent.

One important challenge is to manage the performance of individual expatriate employees (Harzing, 2002). Expatriate

performance may be determined by many factors such as motivation, flexibility, extra-cultural openness, and family situation (Arthur & Bennett, 1995). Yet, it has been argued that the success of international business depends most critically on the distinctive *competences* of senior expatriate employees in MNCs (Caligiuri & Tarique, 2009; Doz & Prahalad, 1986). Such competences mainly encompass technical competence (home-based corporate knowledge), personal adaptability to foreign culture, and familiarity with assignment country (local market knowledge) (Bonache & Fernandez, 1999; Cascio, 2006; Tung, 1982). Nevertheless, when selecting expatriate managers MNCs often overly focus on technical competence which lacks adequate consideration of cultural and context-specific factors (Brewster, 1991). Extant research suggests that a lack of adequate local and contextual knowledge can greatly impede global managers' effective decision-making and threaten their performance in foreign markets (Lord & Ranft, 2000; Makino & Delios, 1996), particularly in dynamic emerging economies. Yet little research has been devoted to the question of how expatriate managers can build up their local competence supporting their effective strategic decision-making in those emerging markets.

In an attempt to address this gap this paper proposes a theoretical framework for developing expatriate managers' local competence in emerging markets from a knowledge-based perspective. Using China, the world's largest and most challenging emerging economy, as our research context, we will firstly examine the nature of local knowledge in emerging markets. We argue that local knowledge in emerging markets differs significantly from corporate knowledge transferred to those markets, and that its very nature determines its critical importance

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to expatriate managers' business performance. Based on this understanding, we will then investigate processes and mechanisms through which local knowledge can be acquired and integrated into expatriate managers' knowledge base supporting their effective strategic decision-making. Subsequently, we will discuss what work practices may facilitate the implementation of these strategic processes. Prior studies have paid limited attention to implementation issues associated with strategies for developing global leaders. Finally, we will present implications for research and management.

2. The nature of local knowledge in emerging markets

The concept of "local knowledge" in the business context is not widely explored and well developed. It was interchangeably used with "foreign market knowledge" (Eriksson & Chetty, 2003) and "market-specific knowledge" (Johanson & Vahne, 1977). Lord and Ranft (2000: 573) defined it as "knowledge that is specific to a host country regarding its language, culture, politics, society, and economy." Emphasizing the complex nature and wide scope of local knowledge Makino and Delios (1996: 907) provided a more explicit explanation:

"Local knowledge includes information and know-how about the local economy, politics, culture, and business customs of a region; information on local demands and tastes; and information on ways to access the local labour force, distribution channels, infrastructure, raw materials, and other factors required for the conduct of business in a region."

Some researchers (Li, 1994; Makino & Delios, 1996) have found that certain forms of local knowledge cannot be treated as a public good which is readily transferable within the firm. Local knowledge in a specific country or region, particularly in emerging markets (Eriksson, Johanson, Majkgard, & Sharma, 1997; Harvey et al., 1999), may have a higher tacit nature than in other countries or regions, making it more difficult to capture. Moreover, even relatively explicit forms of market knowledge can be difficult to obtain in certain host countries due to inefficient information infrastructure (Lord & Ranft, 2000). Furthermore, some existing explicit forms of market knowledge may not be reliable or soon become redundant, due to rapidly changing political and economic conditions (op cit). Hence, the nature of local knowledge in emerging economies can be greatly different from that of developed markets, further suggesting that approaches to developing the local competence of expatriate managers needs to be context-specific.

Consider the case of China, the world's largest emerging market. The country is unique in terms of its economic structure and growth rate, political system, long history and diverse culture, alongside its huge size and population. Statistics show that while until the late 1970s China was a very isolated country whose growth rate was slower than the world average, its average growth in GDP since 1980 is more than 9 per cent making China the fastest growing economy in the world (China Statistical Yearbook 2008). Much of the high growth rate of the past two decades is explained in large part due to China's success in attracting foreign direct investment (Shenkar, 2005).

The dramatic pace of economic reforms undertaken in these years has led to a dynamic and complex economic structure characterized by co-existence of state-owned, collective, private, foreign invested, contracted, and mixed arrangements. Business behaviour, human perceptions, individual needs in one of them can be greatly different from those in another. More important, the composition of this structure has been constantly changing with China's fast economic growth and its long-committed in-depth

economic and social reforms. Consequently, to ensure successful transition from a planned economy to market economy without suffering from overwhelming collapse of its national vital industries the government has assumed an important role in the control on foreign business operations and development (Lee, 1999). The existing laws and regulations have been constantly refined and adjusted, resulting in ambiguities or lack of transparency (Luo, 2007).

Adding to the complexity of this business environment is the highly diverse Chinese culture. Chinese people naturally identify with each other through combinations of language, dialect, generation, region, and educational and professional affiliation, which can present real difficulties for understanding Chinese as a whole. Even those similarities they share are often challenges for foreigners to understand. For example, the specific perception of Chinese on contracts as a symbol of the beginning of a relationship between two sides rather than binding agreement confuses many foreign managers (Lee, 1999). Inter-partner conflicts and misunderstanding of each other due to societal differences in work attitudes, motivational structures, interpersonal norms, and negotiating styles between foreigners and Chinese often lead to low performance (Ghauri & Fang, 2001; Wang, 1998). Gamble (2000: 896) observed that:

"These differences are not abstract phenomena. Rather, they are 'embodied' in the patina of daily actions and decisions, in everyday conversations, habits, values, prejudices, ideals, preconceptions, notions of 'common sense', and so forth."

The embedded and specialized nature of this cultural knowledge implies particular difficulties in its articulation. In addition, the complexity of the Chinese market is compounded by significant regional differences due to its variably developed economic infrastructure. Market penetration by foreign firms, motivated by the plentiful supply of cheaper labour in the interior regions and the government support for projects that improve the economies there, not only requires good understanding of cross-regional cultural issues but also demands adequate local knowledge of the specific region's main characteristics such as regional system and policies, local business operators, distribution networks, density and centrality of local customers, local purchasing capacity and so on. Regional governmental bodies or companies often do not follow the approach developed by the central government or headquarters in Beijing. Thus, there is the saying "policies on the top and countermeasures down below." The geographical reach and inefficient administration system of major Chinese companies often make consistent business activities practically impossible (Lord, 2001). Successful firms in certain sectors build geographic strongholds, which allow synergies in distribution as well as economies of scale, by realizing that firms may have limited resources and local understanding of the country as a whole (Heracleous, 2001). Therefore, the tacit nature of local knowledge is increased by the complexity of this emerging economy's business environment because of its dynamic economic structure, government influence, diverse culture, and great regional differences.

Moreover, China's historical and political background, underdeveloped communication infrastructure, vast administrative bureaucracy, and the distinctive Chinese attitude toward information of all kinds determine the undiffused and unreliable nature of local explicit knowledge. Wen (2001) further observed that official Chinese statistics are not fully reliable. Multinationals often find it difficult to develop strategic plans due to difficulties in obtaining accurate figures. Compiling and publishing statistical data with an eye toward political advantage represent an old problem that originates in the planned economy (op cit). People at different

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